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ABSTRACT

In order to promote low-income parents' job preparation and work efforts, states were given greater flexibility to design programs using federal funds to subsidize child care for low-income families. At Congressional request, this report from the General Accounting Office describes how states set reimbursement rates and calculates the extent to which subsidies and co-payments allow families access to various types of child care in selected communities. Information sources for the report include a survey of child care officials in 50 states and the District of Columbia; interviews with child care officials in state, local, and community-based organizations in urban, suburban, and rural locations in three states (Illinois, Maryland, and Oregon); and a comparison of fees charged by certain types of providers in each of 9 locations with state-established reimbursements for a 2-year-old living with 1 parent. Findings indicated that states reported considering market rate survey results as well as budget and policy goals in setting maximum reimbursement rates. In the nine communities visited, hypothetical families' access to child care varied widely as a result of the different state subsidies and family co-payments. State and local officials indicated that, in some cases, families were able to reach financial agreements with child care providers who were willing to accept the reimbursement rate as full payment although it was below the price charged to nonsubsidized families. Families often relied on informal child care providers who were reimbursed at lower rates than those for formal providers. The report's four appendices include a description of the study scope and methodology and information on reimbursement rates for informal child care providers in eight communities. (KB)

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Report to Congressional Requesters

September 2002

CHILD CARE

States Exercise Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children

ED 471 286

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Abbreviations

AFDC	Aid to Families with Dependent Children
CCDF	Child Care and Development Fund
CCR&R	child care resource and referral
HHS	Department of Health and Human Services
PRWORA	Personal Responsibility and Work Opportunity Recomciliation Act of 1996
SMI	state median income
TANF	Temporary Assistance for Needy Families

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United States General Accounting Office
Washington, DC 20548

September 18, 2002

The Honorable Edward M. Kennedy
Chairman, Committee on Health, Education, Labor
and Pensions
United States Senate

The Honorable Christopher J. Dodd
Chairman, Subcommittee on Children and Families
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable Jack Reed
United States Senate

Federal welfare reform legislation passed in 1996 placed a greater emphasis on helping low-income families end dependence on government benefits by promoting job preparation and work. To reach this goal, the legislation gave states greater flexibility to design programs that use federal funds to subsidize child care for low-income families. Under the Child Care and Development Fund (CCDF), this flexibility includes the freedom to largely determine which low-income families are eligible to receive child care subsidies. States also establish maximum reimbursement rates for child care. These maximum reimbursement rates consist of two parts—a state subsidy and family co-payment. The state subsidy is the state's share of the reimbursement rate; the co-payment is the family's share—the part of the reimbursement rate that they are expected to pay to the child care provider. A maximum reimbursement is the highest amount paid to a provider for rendering child care services. These reimbursement rates have significant implications for low-income families and their participation in states' subsidized child care programs. Co-payments may be related to affordability for families, and reimbursement rates may affect which providers are willing to participate and to whom they will provide access. To assist states in establishing child care reimbursement rates, the U.S. Department of Health and Human Services (HHS) requires them to perform market rate surveys that measure the fees charged by providers.

This report responds to your request that we (1) describe how states set reimbursement rates and (2) calculate to what extent subsidies and co-payments allow families access to specific types of child care providers

in selected communities. To describe how states set reimbursement rates, we conducted a survey of child care officials in the 50 states and the District of Columbia and received responses from 49 of them. We also visited 3 states (Illinois, Maryland, and Oregon) and interviewed officials in state, local, and community-based organizations in three locations in each state—one urban, one suburban, and one rural. Our field work was performed in Chicago, DuPage County, and DeKalb County, Illinois; Baltimore, Montgomery County, and Wicomico County, Maryland; and Portland, Washington County and Linn County, Oregon. In selecting these locations, we sought to include states that had (1) child care resource and referral (CCR&R) networks with comprehensive data on providers and the fees they charged; (2) model market rate surveys; (3) varying income eligibility limits, reimbursement rates, and co-payment fees; (4) different utilization patterns for informal child care providers; and (5) some geographic diversity. To calculate the extent to which reimbursement rates afforded families access to specific types of child care, we obtained information on the fees charged by certain types of child care providers in each of the nine locations we visited and compared them with state-established reimbursement rates for a 2-year-old living with one parent.[1] Because of the limited number of communities in our study, the results of our work are not generalizeable. Our work was done between November 2001 and June 2002 in accordance with generally accepted government auditing standards. (Appendix I contains a more detailed discussion of our scope and methodology.)

Results in Brief

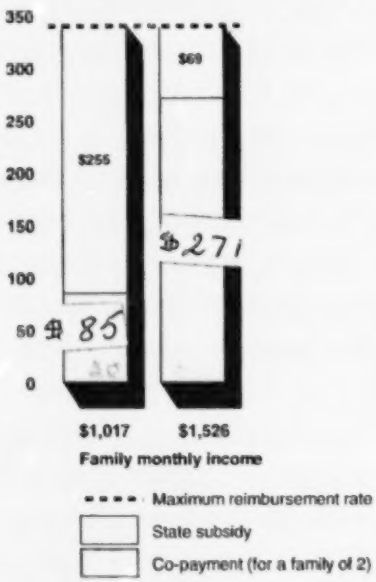
States reported considering market rate survey results and budget and policy goals in setting maximum reimbursement rates. All states reported conducting market rate surveys in the past 2 years that obtained data on providers' fees, but 10 states reported that they did not base the reimbursement rates for child care providers on their most recent market rate surveys. States also set differing reimbursement rates based on geographical differences in providers' fees and children's ages. For example, some states set reimbursement rates based on political boundaries such as counties and municipalities. In addition, states reported that their current budgets were a very important factor in establishing reimbursement rates. States also indicated that they

[1]For this report, families are deemed to have access to specific child care providers if the state maximum reimbursement rate is equal to or greater than the provider's fees.

considered policy goals, such as improving provider quality and increasing access for special needs children, in setting rates.

In the nine communities visited, we calculated that hypothetical families' access to child care centers and family home providers varied widely as a result of the different subsidies and family co-payments established by each state. The state reimbursement rates, which consist of the states' subsidies and the families' co-payments, would have allowed a hypothetical family in different communities to purchase care from different percentages of those providers who were willing to accept subsidies, ranging from as low as 6 percent of family home providers in suburban DuPage County to as high as 71 percent of family home providers in the south side of Chicago. In one Oregon community, the maximum reimbursement rate for family home care for a family of two was $340 per month and, at that rate, the family could purchase child care from 10 percent of family home providers that accepted subsidies. The family's financial responsibility to pay for that child care increased substantially as its income increased. For example, an Oregon family's share of the reimbursement rate increased from $85 to $271 when its monthly income increased from 100 percent to 150 percent of the federal poverty threshold ($1,017 to $1,526). (See fig. 1.) However, reimbursement rates may not strictly limit families' choices among child care providers. State and local officials told us that, in some cases, families were able to reach financial agreements with child care providers who were willing to accept the reimbursement rate as full payment even though it was below the price charged nonsubsidized families. State and local officials were unable to provide information on how often this occurred. Families often relied on informal child care providers who were generally reimbursed at lower rates than states paid formal, regulated providers.

Figure 1: Required Family Co-Payments and State Subsidies by Family Income for Family Home Care in Linn County, Oregon



Source: For family income, U.S. Census Bureau poverty thresholds for 2001 were used. We obtained the amount of the state subsidy and family co-payment from the state of Oregon's Department of Human Services.

Background

Welfare reform legislation, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), eliminated the federal entitlement to cash assistance under the Aid to Families with Dependent Children (AFDC) program and replaced it with a program of block grants to states known as the Temporary Assistance for Needy Families (TANF) program. At the same time, Congress amended the Child Care and Development Block Grant Act of 1990, and required HHS to consolidate federal child care funds and administer them as a unified program. HHS named this program the Child Care and Development Fund. The intent of CCDF is to support state-administered child care programs for both families receiving public assistance and low-income working families not receiving public assistance. Since welfare reform, federal expenditures for CCDF have increased significantly from $2.1 billion in fiscal year 1996 to

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$5.3 billion in fiscal year 2000.[2] In fiscal year 2002, about $4.8 billion was appropriated for CCDF. States also contributed to CCDF, and their funding for this program has nearly doubled from about $1.0 billion in fiscal year 1996 to $1.9 billion in fiscal year 2000. The average number of children who received subsidized child care each month also increased from about 1.2 million in fiscal year 1996 to 1.7 million in fiscal year 2000.

States receive CCDF funds from potentially four funding streams. Each state's annual federal allocation consists of separate discretionary, mandatory, and matching funds. A state does not have to obligate or spend any state funds to receive the discretionary and mandatory funds.[3] However, to receive federal matching funds—and thus its full CCDF allocation—a state must maintain its program spending at a specified level, referred to as a state's maintenance of effort, and spend additional state funds above that level.

In addition to consolidating federal funds, PRWORA significantly changed federal child care policy by giving states maximum flexibility to design child care programs for low-income families. States have broad discretion to establish subsidy amounts, family co-payments, and eligibility limits. States set maximum reimbursement rates that consist of two parts—the state subsidy paid directly to a provider and the co-payment the family pays to a provider.[4] These co-payments vary according to family income and size, and the amount of the state subsidy declines as the family co-payment rises. Co-payments can be waived for any eligible family whose income is at or below the federal poverty threshold, including those in the TANF program, and for children in protective services on a case-by-case basis.[5] As of March 2001, 23 states waived co-payments for TANF families engaged in TANF or other work activities. According to federal law, states

[2]PRWORA allows states the flexibility to transfer up to 30 percent of their TANF funds to CCDF. These transfer funds are included in the federal expenditures of CCDF for fiscal years 1996 and 2000.

[3]Discretionary funds are allocated according to formulas specified in the Child Care and Development Block Grant Act. Mandatory, or guaranteed, funds are fixed amounts based on each state's historic levels of child care spending related to Aid to Families with Dependent Children.

[4]In the states we visited, when providers' fees were less than the maximum reimbursement rate, states reduced their subsidies and family co-payments remained the same.

[5]For 2001, the federal poverty threshold for a 2-person family, including an adult under age 65 and a child under 18 years of age, is $12,207.

can set income eligibility limits up to 85 percent of the state median income (in 2000, this limit ranged from a low of $24,694 for West Virginia households to a high of $43,941 in Maryland), but most states set eligibility limits below that level. In the three states we visited, Oregon reported setting its income eligibility limit at 70 percent of the state median income, Maryland at 50 percent, and Illinois at 43 percent. States are not required to provide assistance to all families that fall within state-established eligibility guidelines, but they are required to give priority to children in very low-income families and to children with special needs. The program serves children up to age 13, but HHS allows states to provide child care services to children with special needs up to age 19.

CCDF subsidies can be used to obtain child care from various types of providers such as child care centers and family homes.[6] Child care centers, group homes, and family homes are most often regulated but some are legally exempt depending on the state. Table 1 provides descriptions of the types of child care providers generally used by subsidized families.

Table 1: Types and Descriptions of Child Care Providers

Type of provider	Description[a]
Child care center	Care typically provided for 12 or more children in a nonresidential facility.
Group home	Care generally provided for between 6 and 12 children in a private residence with an assistant.
Family home	Care generally provided for a small group of children in a provider's home.
Informal[b]	Other legally operating care given by adults, including relatives and friends, and generally unregulated.

[a]Table 1 provides a general description of different types of child care providers. In actuality, states define child care differently and have different licensure and regulatory requirements.

[b]This type of provider includes in-home and unregulated family child care.

Source: U.S. General Accounting Office, *States Increased Spending on Low-income Families*, GAO-01-293 (Washington, D.C.: Feb. 2, 2002) and *Implications of Increased Work Participation for Child Care*, GAO/HEHS-97-75 (Washington, D.C.: May 29, 1997).

States must provide subsidies through vouchers, but some states also made child care available from providers who have contracts with them.[7] Two of the three states we visited made this option available to subsidized

[6]Child care providers may elect not to participate in the state child care subsidy program.

[7]Vouchers are certificates indicating that the state will pay a specific amount of the child care fee to a provider who is chosen by the family.

families. Illinois had contracts with some child care centers to serve children of subsidized families. As of June 2000, Illinois reported that contracted facilities served about 12 percent of the total number of children in the state's subsidized child care program. Oregon contracted with child care providers primarily to serve children from targeted, at-risk families.

Periodically, states adjust their reimbursement rates, co-payment levels, and income eligibility limits. These policy decisions can affect families' access to child care providers. For example, if states set reimbursement rates too low, some providers might choose not to serve children of subsidized families. On the other hand, if states set reimbursement rates too high, some providers might replace children of nonsubsidized families with those of subsidized families. Co-payment levels are also important. For example, in Oregon, one study indicated that, in some cases, a family's economic position worsened as a parent moved from a job paying $6 per hour to one paying $8 per hour because increases in the family's earnings were more than offset by decreases in child care and other subsidies.[6]

HHS is charged with providing oversight, technical assistance and guidance to states, which have responsibility for administering CCDF programs. HHS requires states to submit biennial state CCDF plans that include, among other things, certification that within the past 2 years they performed a market rate survey. A market rate survey is a tool to be used by states to obtain information about providers, including the fees they charge, the type of child care they provide, the age groups of the children they serve, and where they are located. Although states are required to conduct market rate surveys every 2 years and consider the results, they are not compelled to use them in setting child care reimbursement rates. States are also required to certify that they met the equal access provision, a part of the federal law that requires states to set rates that are sufficient to provide access to child care services for eligible families that are comparable to those of families that do not receive subsidies. While HHS reviews and approves CCDF state plans, states have substantial discretion in determining the basis on which they will certify to HHS that they meet the equal access provision. HHS has authority to sanction states if they do not substantially comply with the law, but HHS officials told us that these

[6]John Tapogna and Tara Witt, ECONorthwest, *Making the Transition to Self-Sufficiency In Oregon*, September 30, 1998.

sanctions have never been used.[9] HHS provided guidance indicating that co-payment levels at no more than 10 percent of family income could be considered affordable and reimbursement rates set at least at the 75th percentile of providers' fees can be presumed to provide equal access. In this case, the maximum rate paid by the state and the family would be equal to or greater than the fees charged by 75 percent of providers or for 75 percent of providers' slots. However, states are free to set co-payments and reimbursement rates at other levels.

Most States Reported Considering Market Rate Survey Results, but Also Considered Budgets and Other Factors in Setting Child Care Reimbursement Rates

States used the results of market rate surveys to help set child care reimbursement rates, but also reported considering other factors such as budgets in rate setting. Consistent with HHS guidance, 40 states reported that the survey results were an important consideration when setting reimbursement rates.[10] However, 10 states did not use their most recent surveys in setting current reimbursement rates. States establish different rate schedules for geographical areas and different age groups of children. To establish their rates, states often set maximum reimbursement rates at a percentile of the distribution of providers' fees. However, in setting their child care reimbursement rates, many states considered their budgets and other policy goals. Thirty-two states reported that their current budgets were of great importance when setting reimbursement rates. Other factors that states considered important in setting their rates included achieving policy goals such as expanding eligibility, improving child care quality, and increasing the supply of certain types of child care providers.

Most States Reported Considering Market Rate Survey Results in Setting Rates

Most states reported using their current market rate survey results to help set reimbursement rates; some states reported that they referred to less current survey information. Forty states reported that the results of their most recent market rate survey were very important in determining their current child care reimbursement rates. However, while 10 states reported

[9]According to written comments from HHS, the department has not imposed monetary sanctions for failing to comply with CCDF equal access provisions; however, in a number of instances, HHS has refused to approve state plans because states had not conducted a market rate survey within the period stipulated in the regulations. In such instances, states were given a limited time period to come into compliance, and HHS commented that this approach had worked in each case.

[10]Throughout the report, when referring to the number of states that responded to our survey, we are including the District of Columbia in the 49 jurisdictions. Child care officials in Florida and New Jersey did not respond to our questionnaire.

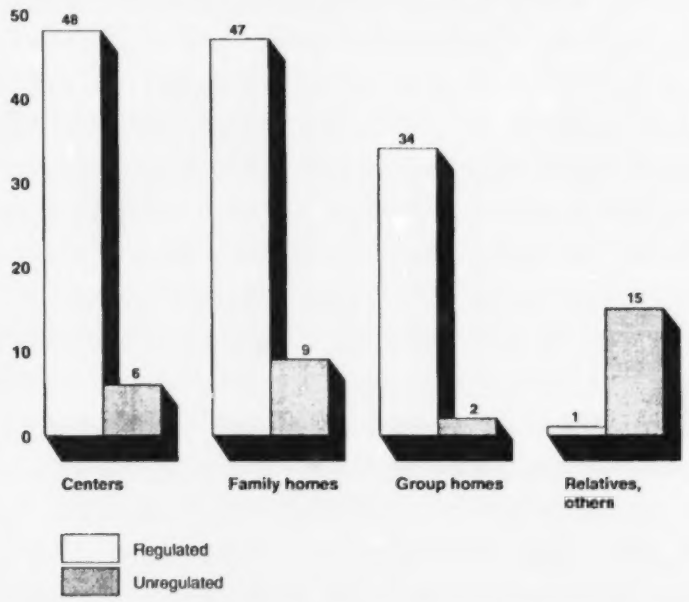
that they had completed current market rate surveys as required by regulations, they used less current market rate survey results to set their rates. The market rate surveys they used were not completed within 2 years of their approved fiscal year 2001 CCDF plans. Of these, 3 states (Michigan, North Dakota, and West Virginia) considered 1999 market rate survey results, 5 states (Arizona, District of Columbia, Illinois, Iowa, and North Carolina) reported considering results from 1998 market rate surveys, 1 state (New Hampshire) considered results from 1994, and 1 state (Missouri) considered market rate survey results from 1991 and 1996.[11]

States reported that their market rate survey results primarily included data on providers' fees from regulated child care center, family home, and group home providers. For example, 48 states surveyed regulated child care centers and 47 states surveyed regulated family home providers. In contrast, 24 states surveyed unregulated providers.[12] Of these, 15 states reported that they obtained information about child care fees from relatives and/or other unregulated providers, such as religious-affiliated child care providers. (See fig. 2 for the types of providers that states indicated were included in their market rate surveys.)

[11]The 1999 market rate survey results used by these states were more than 2 years older than their fiscal year 2002-2003 state CCDF plans. Even though 10 states reported that they did not refer to their most recent market rate survey results, 4 of these states reported that reimbursement rates had been incrementally increased.

[12]Some states may not have surveyed unregulated providers because of difficulties in identifying them and obtaining information about them.

Figure 2: Number of States that Reported Surveying Specific Types of Providers



Note: Most states included more than one type of provider in the market rate survey.

Source: GAO survey responses from 48 states and the District of Columbia.

After an examination of those fees, state officials decided whether and how to divide the state into regions based on variations in providers' fees. State officials may use a variety of methods for dividing the state into regions. As shown in figure 3, 18 states reported setting rates for multicounty regions, and 16 states set rates based on political boundaries, such as counties or municipalities. Illinois and Maryland, two of the states we visited, established reimbursement rate schedules that combined areas into multicounty regions. These regions generally consisted of counties that were not necessarily contiguous to one another but were designed to capture providers who charged similar fees. Oregon, the third state we visited, grouped zip codes with comparable providers' fees into three reimbursement rate areas. Conversely, 14 states reported that they did not pay different reimbursement rates to providers based on their location. In some cases, officials reported they did not divide the state into regions because there was little variation in fees across the state.

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Figure 3: Number of States that Reported Using Various Types of Geographical Areas to Define Child Care Reimbursement Rate Areas

Note: Some states reported using more than one method.

Source: GAO survey responses from 48 states and the District of Columbia.

Most states also reported setting distinct child care reimbursement rates based on the age group of the child needing care. The states we visited, for example, had differing rates for infants and school aged children. In addition, separate rates were often used for child care providers who accepted special needs children, exceeded quality standards, or offered evening and/or weekend care. For example, 24 states reported that they had distinct child care reimbursement rates for providers whose care exceeded state quality standards.

In setting their reimbursement rates, most states ranked providers' fees by type and location of care from highest to lowest, and set maximum reimbursement rates at a percentile of these fees. HHS suggested that states set their maximum child care reimbursement rate at least at the 75th percentile based on the most recent market rate survey results. In responding to our survey, 21 states indicated that they did so. An

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additional 7 states indicated that they set rates at least at the 75th percentile but used a more dated survey.[13]

States Reported Their Budget and Policy Goals Were Also Considered in Rate Setting

While states most often reported that market rate survey results were very important in setting child care reimbursement rates, they also reported that their state budget and policy goals were important factors considered when setting rates. For example, 32 states reported that the amount of their current budget was of great importance when setting child care reimbursement rates. Budgets are important because they establish a financial framework for developing programs and policy goals. State budget processes and their contributions to CCDF affect the amount of money that states choose to spend on child care. During the budget process, trade-offs occur when state decision makers must balance policy goals and program needs against available resources. One potential result of such trade-offs could be that as resources available for child care programs become constrained, more states might be reluctant to adjust their maximum reimbursement rates in line with recent market rate surveys. However, in our survey, child care officials in 27 states indicated that they expected their child care budgets to remain the same, and child care officials in 11 states expected their child budgets to increase in the next fiscal year.[14]

Some state officials told us they used income limits and family co-payments to manage child care program expenditures and to target child care subsidies. Under CCDF, states are permitted to set income eligibility limits to include families whose incomes are up to 85 percent of the state median income (SMI), but most states set their limits below the allowable federal level. They may do so to accommodate state budgetary constraints, to target poorer families, or both. In our survey, states reported setting income eligibility limits that ranged from 42 percent of the SMI (in Missouri) to 105 percent of the SMI (in Pennsylvania).[15] States also varied co-payments to accommodate their budgets and to target certain

[13]Of the remaining 18 states that reported, 10 states set rates below the 75th percentile based on the most recent market rate survey, and 8 states set rates using various other methods. Three states did not respond to this item in our questionnaire.

[14]We surveyed child care officials in March 2002 and their responses reflected their views as of that date.

[15]In some cases, state child care funds can be used to set eligibility limits beyond 85 percent of SMI.

families. In Oregon, for example, as our hypothetical family's income increased from 75 percent to 150 percent of the federal poverty threshold, required co-payments increased from 6 percent to 18 percent of monthly income.

States also considered other child care policy goals in setting their reimbursement rates. Thirty-eight states reported that they used reimbursement rates to encourage child care providers to achieve specific results such as expanding eligibility and improving child care quality. Specifically, 29 states reported that they used reimbursement rates to encourage providers to increase staff education or training, 26 states used rates to encourage providers to make general improvements in quality, 20 states used rates to encourage providers to increase access to their facilities for special needs children, and 18 states reported using reimbursement rates to encourage improvements in providers' facilities that promote children's health and safety. In some states, providers received higher reimbursement rates for achieving these results.

The three states we visited used reimbursement rates in different ways in pursuit of specific policy goals within their child care programs. For example, Illinois encouraged child care centers to increase the number of child care slots available to low-income families with infants and toddlers by paying up to an additional 10 percent to center providers who served a large number of subsidized children 2 years old or younger. For fiscal year 2000, the state reported that an additional 390 slots for subsidized infants and toddlers were added as a result of this initiative. Illinois also implemented a statewide initiative that paid providers an additional subsidy amount to care for children with disabilities. Based on receiving the increased subsidies, providers were expected to purchase adaptive equipment and obtain specialized training to improve the care they gave these children. In Maryland, a tiered reimbursement rate program—paying different rates to child care providers based on program accreditation, staff credentialing, continued training, staff compensation, and other achievements—was established to improve the qualifications of the child care workforce, encourage parent involvement, and promote a high level of program quality. Few states reported having evaluated the effects of such uses of reimbursement rates.

In Selected Communities, Different Subsidies and Co-Payments Resulted in Varied Access to Child Care for Low-Income Families

In the nine communities we visited, we calculated that the maximum reimbursement rates afforded hypothetical 2-person families widely different levels of access to child care providers who accepted the subsidy.[16] The state reimbursement rates, which consist of the states' subsidies and families' co-payments, allowed hypothetical families, for example, to purchase care from 6 percent to 71 percent of family home providers who accepted the subsidy in these nine communities. Families generally could afford child care from a greater percentage of providers in urban communities than suburban and rural communities. In all three states, the states' subsidies decreased as families' incomes increased; this sometimes resulted in steep increases in family co-payments. These required co-payments ranged from 1 percent to 18 percent of a hypothetical family's income, varying by the level of income. However, reimbursement rates may not strictly limit families' choices among child care providers. State officials reported that families were sometimes able to make financial arrangements with formal, regulated providers whose fees exceeded state reimbursement rates. In addition, families could obtain care they needed or wanted from informal providers who were generally reimbursed at lower rates than states paid formal, regulated providers. State officials were unable to provide information on how often these circumstances occurred.

Affordability of Specific Types of Child Care Varied Widely as a Result of Subsidies and Co-payments in Nine Communities

The affordability of child care for hypothetical families of two (consisting of a parent and 2-year-old) varied as a result of different subsidies and co-payments in nine selected communities. Moreover, the choice that rates afforded families among available providers was generally greater in urban communities than in suburban and rural communities. The only exception was among family home providers in Maryland, where families were able to afford a greater portion of this type of care in suburban and rural communities.

Illinois

We visited three communities in Illinois—one urban, one suburban, and one rural. Table 2 shows the characteristics of Chicago, DuPage County, and DeKalb County.

[16]This family size was selected after reviewing fiscal year 1999 TANF recipient data that showed that most single parent families have one child. Most TANF cases that include adults have only one parent. TANF data were used because HHS did not have similar data on the family composition of those using CCDF subsidies.

Table 2: Characteristics of Locations Visited in Illinois

Location	Geographic area	Estimated population	Median household income	Percent of people living in poverty
Chicago[a]	Urban	2.8 million	$63,800	22
DuPage County	Suburban	904,000	$64,365	4
DeKalb County	Rural	89,000	$46,964	8
Statewide	Not applicable	12.4 million	$45,803	11

[a]In this table, the description of Chicago is for the entire city. Our analysis of providers' fees is only for the south side of the city.

Source: Characteristics of the geographic areas were obtained from the city of Chicago government and the Illinois Network of Child Care Resource and Referral Agencies; population estimates, median household income, and poverty thresholds were obtained from the city of Chicago government and the U.S. Census Bureau.

While Illinois set the same reimbursement rate for child care centers for these three communities, the extent to which the rates afforded choice among family home providers and child care centers varied widely, resulting sometimes in large differences between prevailing local fees and maximum reimbursement rates. For example, of those family home providers who accepted child care subsidies, 6 percent to 71 percent had fees that were within (i.e., equal to or less than) the maximum reimbursement rate. Of those child care centers that accepted subsidies, 30 percent to 100 percent had fees within the rate. Moreover, to provide our hypothetical low-income families with greater access to family home providers in DuPage County would require a significant increase in the state's maximum reimbursement rate. Specifically, to allow families access to approximately 50 percent of the family home providers, the maximum reimbursement rate would need to be raised 39 percent from $466 to $650, a monthly increase of $184. See table 3 for comparisons of providers' fees, reimbursement rates, and percent of providers accepting subsidies who charged fees within the reimbursement rate in three Illinois communities.

Table 3: Comparison of Reimbursement Rates and Providers' Fees for a 2-Person Family (Parent and 2-year-old) in Three Communities in Illinois

Community	Type of child care	Maximum reimbursement rate	Median price	Total number of providers	No. of providers accepting subsidies	No. of providers within reimbursement rate and accepting subsidies	Percent of subsidy-accepting providers within rate
Chicago (south side)	Family home	$466	$466	732	713	509	71
Chicago (south side)	Center	$731	$433	99	94	89	95
DuPage County	Family home	$466	$650	345	161	9	6
DuPage County	Center	$731	$753	97	86	26	30
DeKalb County	Family home	$414	$433	95	61	18	29
DeKalb County	Center	$731	$595	12	12	12	100

Note: The number of centers accepting subsidies included those that were contracted by the state to provide child care to subsidized children.

Source: Our calculations based on provider data obtained from the Illinois Network of Child Care Resource and Referral Agencies and the Illinois Department of Human Services.

Maryland

We visited three communities in Maryland—one urban, one suburban, and one rural. Table 4 shows the characteristics of Baltimore, Montgomery County, and Wicomico County.

Table 4: Characteristics of Locations Visited in Maryland

Location	Geographic area	Estimated population	Median household income	Percent of people living in poverty
Baltimore	Urban	651,000	$33,900	22
Montgomery County	Suburban	873,000	$70,100	5
Wicomico County	Rural	85,000	$36,400	13
Statewide	Not applicable	5.3 million	$52,346	9

Source: Characteristics of the geographic areas were obtained from the Wicomico County government and the Maryland Committee for Children; population estimates, median household income, and poverty thresholds were obtained from the U.S. Census Bureau.

Across the three Maryland communities, the reimbursement rates afforded our hypothetical families varied access to family home providers and child care centers. As shown in table 5, of those family home providers who accepted child care subsidies, 45 percent to 64 percent had fees that were within the maximum reimbursement rate. The percent of participating child care centers that had fees within the rate varied—from 37 percent to

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68 percent. In contrast to Illinois, providing low-income families with greater access to subsidized child care in Maryland would generally require smaller increases in the states' maximum reimbursement rates. For example, to allow families access to approximately 50 percent of the child care centers in Wicomico County, would require raising the maximum reimbursement rate 5 percent from $358 to $375, a monthly increase of $17. See table 5 for comparisons of providers' fees, reimbursement rates, and percent of providers accepting subsidies who charged fees within the reimbursement rate in three Maryland communities.

Table 5: Comparison of Reimbursement Rates and Providers' Fees for a 2-Person Family (Parent and 2-year-old) in Three Communities in Maryland

Community	Type of child care	Maximum reimbursement rate	Median price	Total number of providers	No. of providers accepting subsidies	No. of providers within reimbursement rate and accepting subsidies	Percent of subsidy-accepting providers within rate
Baltimore	Family home	$429	$433	1159	1118	501	45
Baltimore	Center	$433	$417	77	77	52	68
Montgomery County	Family home	$596	$563	634	495	241	49
Montgomery County	Center	$659	$669	76	69	33	48
Wicomico County	Family home	$325	$325	160	123	79	64
Wicomico County	Center	$358	$375	20	19	7	37

Source: Our calculations based on provider data obtained from the Maryland Committee for Children and the local subsidy agencies for Baltimore, Montgomery County, and Wicomico County.

Oregon

We visited three communities in Oregon—one urban, one suburban, and one rural. Table 6 shows the characteristics of Portland, Washington County, and Linn County.

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Table 6: Characteristics of Locations Visited in Oregon

Location	Geographic area	Estimated population	Median household income	Percent of people living in poverty
Portland	Urban	529,000	$37,363	15
Washington County	Suburban	445,000	$51,775	7
Linn County	Rural	103,000	$37,123	12
Statewide	Not applicable	3.4 million	$39,575	13

Source: Characteristics of the geographic areas were obtained from the city of Portland government, Washington County government, and the state of Oregon's Secretary of State; population estimates, median household income, and poverty thresholds were obtained from the U.S. Census Bureau and the city of Portland government.

In Oregon, hypothetical families' access to providers varied slightly and was limited. For example, of those family home providers who accepted child care subsidies, 10 percent to 24 percent had fees that were within the maximum reimbursement rate. Of those child care centers participating, 0 percent to 17 percent had fees within the rate. See table 7 for comparisons of providers' fees, reimbursement rates, and percent of providers accepting subsidies who charged fees within the reimbursement rate in three Oregon communities.

Table 7: Comparison of Reimbursement Rates and Providers' Fees for a 2-Person Family (Parent and 2-year-old) in Three Communities in Oregon

Community	Type of child care	Maximum reimbursement rate	Total number of providers	No. of providers accepting subsidies	No. of providers within reimbursement rate and accepting subsidies	Percent of subsidy-accepting providers within rate
Portland	Family home	$386	511	402	98	24
Portland	Center	$545	61	52	7	13
Washington County	Family home	$386	486	305	44	14
Washington County	Center	$545	44	38	0	0
Linn County	Family home	$340	201	143	14	10
Linn County	Center	$419/465a	6	6	1	17

Note: A median price for child care within an Oregon community could not be calculated because of the manner in which the child care resource and referral network collects provider fee data (see app. I).

[a]Child care centers in Linn County are situated in two reimbursement rate areas.

Source: Our calculations based on provider data obtained from the Oregon Child Care Resource and Referral Network and the Oregon Department of Human Resources.

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Most Providers Expressed Willingness to Accept Child Care Subsidies

In the nine communities we visited, most child care providers indicated to local resource and referral offices a willingness to accept subsidized children; center providers reported a willingness to accept subsidized children more often than family home providers. As shown in table 8, 85 percent to 100 percent of child care centers reported a willingness to accept subsidies compared with 47 percent to 97 percent of family home providers across the nine communities. State officials considered the percent of child care providers who were willing to participate in subsidized child care programs an important measure of access.

Table 8: The Percent of Family Home Providers and Child Care Centers in Nine Communities Indicating Willingness to Accept Subsidies

Community	Percent of family home providers	Percent of child care centers
Chicago (south side), Ill.	97	95
DuPage County, Ill.	47	89
DeKalb County, Ill.	64	100
Baltimore, Md.	96	100
Montgomery County, Md.	78	91
Wicomico County, Md.	77	95
Portland, Ore.	79	85
Washington County, Ore.	63	86
Linn County, Ore.	71	100

Source: Our calculations based on provider data obtained from child care resource and referral networks in the three states. These figures reflect intentions providers expressed to local child care resource and referral offices.

Results from our national survey also showed that the providers' participation rates varied. In our survey, states estimated that the proportion of licensed child care providers who participated in their subsidized programs ranged from 23 percent to 90 percent, with a median of 69 percent. However, even though provider participation was generally high, local child care resource and referral staff told us that some providers limited the number of subsidized children they accepted at any one time and others may have required parents to pay the difference between the reimbursement rates and providers' fees. (This last point is discussed in greater detail later in the report.)

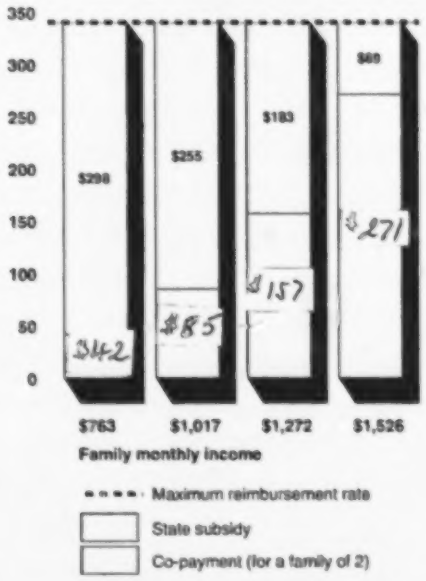
Families Faced Larger Co-payments as Their Incomes Increased

Although maximum reimbursement rates were the same for all subsidized families within a community, a family's share of this rate, or co-payment, increased as family income increased.[17] For example, for a family of two in Linn County, Oregon, earning $1,017 a month (100 percent of the federal poverty threshold) the maximum reimbursement rate for family home care was $340—comprised of an $85 required family co-payment and a state subsidy of $255. As the family's income increased to $1,526 a month (150 percent of the federal poverty threshold), its required co-payment rose to $271, and the state subsidy declined to $69.[18] The relationships among co-payments, state subsidies, and income for a family of two in Linn County, Oregon, using family home care are illustrated in figure 4.

[17]In the three states we visited, co-payments did not vary by type of care for formal, regulated providers; they varied in one state (Maryland) based on geography and in all three states based on family income and size. Co-payments for families using informal providers were the same as those for formal providers except in Maryland where they were less.

[18]In all three states we visited, 2-person families with incomes at 200 percent of the federal poverty threshold ($2,034 per month) exceeded the income eligibility limits for subsidized child care.

Figure 4: Required Family Co-Payments and State Subsidies by Family Income for Family Home Care in Linn County, Oregon



Source: For family income, U.S. Census Bureau poverty thresholds for 2001 were used. We obtained the amount of the state subsidy and family co-payment from the state of Oregon's Department of Human Services.

Required co-payments resulted in families paying from 1 percent to 18 percent of their income for child care across the nine communities. Oregon, which had a statewide co-payment schedule, required our hypothetical families to make the highest co-payments of the three states we visited.[10] Regardless of where they lived, subsidized families with monthly earnings of $1,526 paid 18 percent of their income for child care. Maryland, which varied co-payment amounts by region, required families in Montgomery County to pay higher co-payments than those in Baltimore and Wicomico County. In Illinois, which also has a statewide co-payment

[10]Since March 2000, Oregon has required certain families who are eligible for the state's subsidized child care program to pay no more than $25 in co-payments for the first 2 months. These smaller co-payments apply to, among others, families who have left TANF for employment, and those families applying for subsidized child care because of a change in their circumstances, such as families who are newly employed, families who lost their low-cost child care arrangements, and families who are no longer able to afford child care.

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schedule, the co-payments in every community were less than 10 percent of family income at 150 percent of the federal poverty threshold. See table 9 for monthly income, family co-payment, and co-payments as a percent of income in the nine communities.

Table 9: Family Co-Payments as a Percent of Monthly Income in the Nine Communities for Child Care Centers and Family Homes

Location	Percent of federal poverty threshold	Family monthly income	Family monthly co-payment	Co-payment as percent of income
Illinois	75	$763	$35	5
	100	$1,017	$65	6
	125	$1,272	$87	7
	150	$1,526	$134	9
Baltimore, Md.	75	$763	$9	1
	100	$1,017	$26	3
	125	$1,272	$86	7
	150	$1,526	$137	9
Montgomery County, Md.	75	$763	$12	2
	100	$1,017	$36	4
	125	$1,272	$121	10
	150	$1,526	$194	13
Wicomico County, Md.	75	$763	$7	1
	100	$1,017	$20	2
	125	$1,272	$66	5
	150	$1,526	$105	7
Oregon	75	$763	$42	6
	100	$1,017	$85	8
	125	$1,272	$157	12
	150	$1,526	$271	18

Source: Poverty threshold data were obtained from the U.S. Census Bureau; family monthly income and co-payment as a percent of income are our calculations based on data obtained from the U.S. Census Bureau and the Illinois Department of Human Services, three local subsidy offices in Maryland, and the Oregon Department of Human Resources; the family monthly co-payments were obtained from the Illinois Department of Human Services, three local subsidy offices in Maryland, and the Oregon Department of Human Resources.

While co-payments can be considered as a percentage of family income, they can also be considered as a percentage of the total reimbursement rate; this provides some sense of the portion of the total fee borne by the family and, to some extent, the benefit of participation in the subsidy program. When considered in this way, a family's co-payment represented from 2 percent to 80 percent of the reimbursement rate; Oregon families paid the largest share of the reimbursement rate. For example, in rural Linn County, families who earned 150 percent of the federal poverty threshold were responsible for a monthly co-payment of $271, which represented 80 percent of the reimbursement rate for a family home provider. This share was significantly larger than that paid by similar

families in the rural communities of DeKalb County, Illinois, and Wicomico County, Maryland, who were responsible for paying 32 percent of the reimbursement rate for family home providers. In addition, in Oregon and Illinois, rural families paid a larger share of the reimbursement rate than families in urban and suburban communities (see table 10). Families at the lowest income levels in each community paid a relatively small share of the total reimbursement rate.

Table 10: Family Co-Payments as a Percent of the Maximum Reimbursement Rate for Child Care in Maryland, Illinois, and Oregon Communities for Family Home Care

Location	Percent of federal poverty threshold	Family monthly income	Maximum reimbursement rate for family home care	Family monthly co-payment	Family co-payment as a percent of the maximum reimbursement rate
Chicago and DuPage County, Ill.	75	$763	$466	$35	7
	100	$1,017	$466	$65	14
	125	$1,272	$466	$87	19
	150	$1,526	$466	$134	29
DeKalb County, Ill.	75	$763	$414	$35	9
	100	$1,017	$414	$65	16
	125	$1,272	$414	$87	21
	150	$1,526	$414	$134	32
Baltimore, Md.	75	$763	$429	$9	2
	100	$1,017	$429	$26	6
	125	$1,272	$429	$86	20
	150	$1,526	$429	$137	32
Montgomery County, Md.	75	$763	$596	$12	2
	100	$1,017	$596	$36	6
	125	$1,272	$596	$121	20
	150	$1,526	$596	$194	33
Wicomico County, Md.	75	$763	$325	$7	2
	100	$1,017	$325	$20	6
	125	$1,272	$325	$66	20
	150	$1,526	$325	$105	32
Portland and Washington County, Ore.	75	$763	$386	$42	11
	100	$1,017	$386	$85	22
	125	$1,272	$386	$157	41
	150	$1,526	$386	$271	70
Linn County, Ore.	75	$763	$340	$42	12
	100	$1,017	$340	$85	25
	125	$1,272	$340	$157	46
	150	$1,526	$340	$271	80

Source: Our calculations of family income were based on data obtained from the U.S. Census Bureau; maximum reimbursement rates for family home care in Illinois were based on our calculations of data obtained from the Illinois Department of Human Services, three local subsidy offices in Maryland, and the Oregon Department of Human Resources; family monthly co-payments were obtained from the Illinois Department of Human Services, three local subsidy offices in Maryland, and the Oregon Department of Human Resources; family co-payments as a percent of the maximum reimbursement rate are our calculations based on data obtained from the Illinois Department of Human Services, three local subsidy offices in Maryland, and the Oregon Department of Human Resources.

According to State and Local Officials, Reimbursement Rates May Not Necessarily Limit the Child Care Available to Families

Even though our analysis showed that some reimbursement rates did not afford hypothetical families much choice among specific types of child care, state and local officials noted that actual families' child care options may not be strictly limited by the reimbursement rates. In all three states we visited, families could choose providers whose fees exceeded the state-established reimbursement rates—by paying the co-payment and the difference between the providers' fees and the reimbursement rates. Families were responsible for these additional payments, and states were generally not part of these financial arrangements with child care providers. State officials could not provide data on how often this occurred.

In other instances, state and local officials told us they believed that some regulated providers subsidized the state child care program by accepting maximum reimbursement rates as full payment—even though the rates were less than the fees charged nonsubsidized families. These officials said that some providers were willing to do so because there was more certainty in receiving state subsidies than private payments from nonsubsidized families. They also told us that some child care providers may build a loyal customer base by accepting reimbursement rates as full payment until families can afford to pay the extra amount. Again, state officials could not provide data on how often this occurred or what adjustments providers made, if any, to accommodate any such foregone revenues.

Consistent with federal law, all three state child care programs also allowed subsidized families to use informal child care providers (i.e., unregulated, legally operating providers) in addition to formal, regulated providers. Subsidized families in the three states we visited varied in how frequently they chose this option. States estimated that 25 percent of subsidized families in Maryland, 57 percent in Illinois, and 60 percent in Oregon relied on informal care providers. In our survey, state officials reported that families chose informal providers for many different reasons including convenience, flexibility in hours, and lower costs. State and local officials mentioned that some informal child care providers were willing to

forego co-payments because they were aware of the families' financial circumstances. They could not provide data on how often this occurred.

States We Visited Generally Reimbursed Informal Providers at Lower Rates

While subsidized families could choose informal child care arrangements, the states we visited generally set lower reimbursement rates for these providers. For example, table 11 shows that informal providers in Baltimore received a maximum reimbursement rate of $215 which was about half of the $429 received by family home providers. See appendix II for information about the reimbursement rates and family co-payments for informal providers in the other eight communities we visited.

Table 11: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-Person Family (Parent and 2-year-old) Using Informal Providers in Baltimore, Maryland

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$4	<1	$211	$215
100	$12,207	$1,017	$13	1	$202	$215
125	$15,259	$1,272	$49	4	$166	$215
150	$18,311	$1,526	$88	6	$127	$215

Source: Federal poverty threshold, annual income, and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate was obtained from the local subsidy office in Baltimore, and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the local subsidy office in Baltimore.

Nonetheless, states varied considerably in the distinction drawn between rates paid to informal providers and those paid to formal, regulated family home providers. In Oregon, the rates were quite close; in Illinois and Maryland, they were much further apart. States made these different choices with regard to reimbursement rates despite the lack of information they reported having on informal providers' fees or the relationship between the rates and the supply of such care.

In the three states we visited, variations in the use of informal child care providers appeared to be influenced by state policies. Illinois and Oregon reported almost the same percentage of families selecting informal providers (57 percent and 60 percent, respectively). Yet, Illinois' maximum reimbursement rates for informal providers was only about half as high as established for regulated family homes, while Oregon's maximum reimbursement rate for informal providers was nearly the same as for regulated family homes. Moreover, like Illinois, Maryland established

maximum reimbursement rates for informal providers that were about half those for regulated family home providers, but reported a much smaller portion of subsidized families (25 percent) selecting informal child care providers. However, in Illinois, informal providers may provide full-time child care in the child's home or in their own home. In Maryland, only relatives may provide full-time child care in their own homes without seeking state licensure, and non-related, informal providers can provide such services only in the child's home. These policy differences may affect informal providers' willingness to participate in the states' subsidized child care programs. Also, according to a Maryland state official, reimbursement rates for formal providers were increased, in part, as an incentive for informal providers to become licensed.

Concluding Observations

In the 6 years since passage of PRWORA and the creation of the CCDF, states have exercised broad flexibility in designing child care subsidy programs to support parents' workforce participation by enhancing their access to affordable child care. In doing so, states have made varied choices regarding which families will be eligible for child care subsidies, how much those families must pay for child care, and how much the state will supplement these payments to offer choice among additional providers. States' decisions on these issues involve trade-offs and may have unintended as well as intended effects. For example, in the three states we visited, income eligibility standards varied from just over 40 percent to 70 percent of the state median income. However, the state with the highest eligibility standard, perhaps as a consequence, generally offered the lowest reimbursement rates. Similarly, based on our analysis of nine communities in 3 states, we observed that states were setting reimbursement rates in ways that had widely different implications for the number and type of child care providers from which a hypothetical family could choose, even across different communities within the state. In Illinois, the same maximum reimbursement rates were established for child care providers in Chicago and neighboring DuPage County, perhaps due to concerns for compensating providers equitably across political boundaries. However, the markedly different prices charged by providers in different localities made for very large differences in the selection that these rates afforded eligible families. Finally, the issue of selection or usage is more complex than reimbursement rates alone; states' policies such as licensing provisions are also important because they affect parents' choices and the supply of child care providers.

Agency Comments

The Department of Health and Human Services provided written comments on a draft of this report. These comments are reprinted in appendix III. HHS took no issue with our principle findings and indicated that the report raises important questions about information that would be helpful on the potential effects of reimbursement rates on families and other aspects of the child care market. In this connection, HHS cited studies it funds—through the CCDF set aside for research, demonstration, and evaluation—and its efforts to encourage states to study the relationship between state policies (including those related to child care subsidies) and the interrelationship between state policy and child care markets. HHS also provided technical comments, which we incorporated as appropriate.

As requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time we will send copies of this report to the Secretary of Health and Human Services, appropriate congressional committees, and other interested parties. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov. If you or your staffs have any questions about this report, please contact me on (202) 512-7215. Other staff who contributed to this report are listed in appendix IV.

Marnie S. Shaul
Director, Education, Workforce, and
Income Security Issues

Appendix I: Scope and Methodology

GAO Survey of State Child Care Officials

To describe how states set reimbursement rates, we conducted a mail survey of the state child care officials in 50 states and the District of Columbia, of which 49 responded for an overall response rate of 96 percent. The survey included questions on market rate surveys and other factors that states may have considered in setting rates.[1] While we asked state child care administrators to assess the importance of various factors in setting reimbursement rates, we did not independently verify their assessments by, for example, comparing historical data on these factors with actual state decisions. In addition to gathering this information through our survey, we interviewed state child care program officials in Illinois, Maryland, and Oregon to learn how they set reimbursement rates. We also interviewed consultants who assisted state program officials with analyzing their market rate survey results.

Case Studies in Nine Communities across Three States

In selecting the states for our field work, we sought to include states that had (1) child care resource and referral (CCR&R) networks with comprehensive data on providers and the fees they charged; (2) model market rate surveys; (3) varying income eligibility limits, reimbursement rates, and co-payment fees; (4) different utilization patterns for informal child care providers; and (5) some geographic diversity. We visited three states and met with officials of state, local, and community-based organizations in three locations in each state—one urban, one suburban, and one rural. Our field work was performed in Chicago, DuPage County, and DeKalb County, Illinois; Baltimore, Montgomery County, and Wicomico County, Maryland; and Portland, Washington County, and Linn County, Oregon.

To determine the extent to which reimbursement rates were likely to afford hypothetical families access to specific types of child care providers, we obtained data on providers' fees for full-time care from CCR&R network databases in each of the three states we visited. The local CCR&R offices in each of the communities we visited collected actual information on providers' fees. The local CCR&R offices submitted the information about these fees to their networks that compiled this information throughout the state. CCR&R networks supplied us with provider fee data for each of the nine communities we visited. CCR&R databases were relied on because the data on providers' fees were readily available and current. While we did not conduct tests for accuracy or

[1]Prior to administering the questionnaire, we pre-tested it in three jurisdictions.

reliability of the CCR&R databases, state officials and CCR&R staff expressed confidence in the accuracy and comprehensiveness of the data.

In calculating the percentage of providers who had fees that were equal to or less than the state-established reimbursement rates, we included those providers who indicated a willingness to accept Child Care and Development Fund (CCDF) funded subsidies. This information was self-reported by most child care providers. In instances where providers did not report whether they accepted the state's subsidy or indicate a willingness to accept the subsidy, they were included in the total number of providers in a community but were not counted as accepting the subsidy.

Since Illinois provider fees were reported as a weekly rate and reimbursement rates were set on a daily basis, both sets of numbers were converted to reflect monthly provider fees and monthly reimbursement rates. Using a multiplying factor of 4.33, representing the average number of weeks in a month, we converted providers' fees from a weekly to monthly basis.[2] Using a multiplying factor of 21.65, representing the average number of work days in a month, we converted daily reimbursement rates to monthly rates.

Because Maryland provider fees were reported as a weekly rate and reimbursement rates were set on a monthly basis, we converted the provider fees so we could compare them with the state-established reimbursement rates. Using a multiplying factor of 4.33, representing the average number of weeks in a month, we converted providers' fees from a weekly to monthly basis.

Oregon provider fee data were also reported in different time increments than the state-established reimbursement rates; however, we did not convert these fee data to a single common unit. Providers reported their fees in hourly, daily, weekly, or monthly increments; the state established hourly and monthly rates. Oregon consultants advised us not to convert provider fee data because providers who charged in different time increments may operate differently. The consultants suggested that providers who usually charge in less than monthly increments might offer slight discounts to families who use their services for a month or longer.

[2]We used the same weekly conversion factor (4.33) as used by a consulting firm contracted by the Maryland Department of Human Resources.

As a consequence, we directly compared providers' fees reported in hours and months to the state's hourly and monthly reimbursement rates.[3] For providers' fees reported in days or weeks, we divided monthly reimbursement rates by 21 (slightly less than the average number of work days in a month to account for a discount) to determine daily rates. In addition, we multiplied these calculated daily rates by 5 to determine weekly rates. We discussed this approach with the consultant who conducted market rate studies for the state. Because of the complexity of converting data on providers' fees, we did not calculate a median monthly provider fee for the three communities we visited in Oregon.

In determining hypothetical families' access to the nine communities across three states, in one case, we limited the scope of our analysis. To prevent geographical differences in income from limiting the usefulness of our analysis and because of the much larger size of the city of Chicago, we included only that area of Chicago that had a lower average median income. We selected the lower-income area based on preliminary analysis that showed a high percentage of providers in the area indicated a willingness to accept subsidies. Although some higher-income areas are covered and some lower-income areas excluded, for ease of analysis we included all contiguous zip codes south of the Chicago central business district.

Since family co-payments vary by such factors as family income and family size, and the fees that providers charge also vary depending on a child's age and the type of child care, we used a hypothetical two-person family (consisting of a parent and 2-year-old child) in our analysis. This family size was selected after reviewing fiscal year 1999 Temporary Assistance to Needy Children (TANF) recipient data that showed that most single parent families have one child, and most TANF cases that include adults have only one parent.[4] The age of the hypothetical child was selected after reviewing CCDF recipient data on the ages of children served. To determine the percent of family income that would be spent for co-payments in the three states, we varied family income from 75 percent of

[3]Oregon has standard and enhanced reimbursement rates. Enhanced reimbursement rates are paid to child care centers and group homes that are certified and to family home providers and certification-exempt centers that meet professional development requirements. Since most Oregon providers qualify for enhanced reimbursement rates, these rates were used in our calculations.

[4]TANF data were used because HHS did not have similar data on family composition of those using CCDF subsidies.

the federal poverty threshold to 150 percent of the federal poverty threshold. We used the same procedure in determining the percent of the reimbursement rates represented by a family's required co-payment.

Other Related Activities

At the federal level, we interviewed officials at the Department of Health and Human Services in Washington, D.C., and regional offices in Chicago, Illinois, and Philadelphia, Pennsylvania. We reviewed documents concerning CCDF legislation, HHS rules and regulations, HHS data and reports on access for low-income families, and obtained copies of states' CCDF plans for fiscal years 2002-2003 that contained the states' co-payment fee structures, and generally included information about market rate survey results and reimbursement rates. We also interviewed child care policy experts and reviewed current literature on subsidized child care.

Appendix II: Reimbursement Rates for Informal Child Care Providers in the Remaining Eight Communities

For the three states we visited, we obtained data on family monthly co-payments and reimbursement rates for informal providers. These states generally did not collect information on the fees charged by informal providers. Moreover, local CCR&R offices generally did not collect information on informal child care providers or include them in their databases. As shown in tables 12 to 16, each of the three states we visited paid rates that were lower for informal care than for other types of care. States made different choices regarding such rates despite the lack of information on informal providers' fees, or the effect of established rates on the supply of such care. See tables 12 to 16 for reimbursement rates and family co-payments for informal providers in eight communities we visited. Information on Baltimore, Maryland, is shown in table 11.

Table 12: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-Person Family (Parent and 2-year-old) Using Informal Providers in Chicago (south side), DuPage County, and DeKalb County, Illinois

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$35	5	$170	$205
100	$12,207	$1,017	$65	6	$140	$205
125	$15,259	$1,272	$87	7	$118	$205
150	$18,311	$1,526	$134	9	$71	$205

Source: Federal poverty threshold, annual income and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate were obtained from the Illinois Department of Human Services; and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the Illinois Department of Human Services.

Table 13: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-Person Family (Parent and 2-year-old) Using Informal Providers in Montgomery County, Maryland

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$6	<1	$292	$298
100	$12,207	$1,017	$18	2	$280	$298
125	$15,259	$1,272	$69	5	$229	$298
150	$18,311	$1,526	$122	8	$176	$298

Source: Federal poverty threshold, annual income and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate were obtained from the local subsidy office in Montgomery County; and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the local subsidy office in Montgomery County.

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Table 14: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-Person Family (Parent and 2-year-old) Using Informal Providers in Wicomico County, Maryland

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$3	<1	$160	$163
100	$12,207	$1,017	$10	<1	$153	$163
125	$15,259	$1,272	$37	3	$126	$163
150	$18,311	$1,526	$67	4	$96	$163

Source: Federal poverty threshold, annual income and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate were obtained from the local subsidy office in Wicomico County; and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the local subsidy office in Wicomico County.

Table 15: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-person Family (Parent and 2-year-old) Using Informal Providers in the city of Portland and Washington County, Oregon

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$42	6	$319	$361
100	$12,207	$1,017	$85	8	$276	$361
125	$15,259	$1,272	$157	12	$204	$361
150	$18,311	$1,526	$271	18	$90	$361

Source: Federal poverty threshold, annual income and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate were obtained from the Oregon Department of Human Resources; and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the Oregon Department of Human Resources.

Table 16: Family Co-Payment and State Share of Monthly Child Care Expenses for a 2-person Family (Parent and 2-year-old) Using Informal Providers in Linn County, Oregon

Percent of federal poverty threshold	Annual family income	Family monthly income	Family monthly co-payment	Co-payment as percent of family monthly income	State share of monthly child care expenses	Maximum reimbursement rate
75	$9,155	$763	$42	6	$276	$318
100	$12,207	$1,017	$85	8	$233	$318
125	$15,259	$1,272	$157	12	$161	$318
150	$18,311	$1,526	$271	18	$47	$318

Source: Federal poverty threshold, annual income and family monthly income are our calculations based on U.S. Census Bureau data; family co-payment and maximum reimbursement rate were obtained from the Oregon Department of Human Resources; and co-payment as percent of family monthly income and state share of monthly child care expenses are our calculations based on data obtained from the Oregon Department of Human Resources.

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Appendix III: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 6
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

SEP 11 2002

TO: Marnie S. Shaul, Director
Education, Workforce, and Income
Security Issues
United States General Accounting Office

FROM: Wade F. Horn, Ph.D.
Assistant Secretary
for Children and Families

SUBJECT: Comments on the General Accounting Office's Draft Report "States Exercise Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children" (GAO-02-894)

Attached are the Administration for Children and Families' comments on the above-referenced report which explores the relationships among State provider reimbursement rates, family co-payments, and access to child care for families being served through the Child Care and Development Fund (CCDF).

We appreciate the opportunity to comment on the report. If you have any questions, please contact Shannon Christian, Child Care Bureau Associate Commissioner at (202) 690-6782.

Attachments

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COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT, "STATES EXERCISE FLEXIBILITY IN SETTING REIMBURSEMENT RATES AND PROVIDING ACCESS FOR LOW-INCOME CHILDREN" (GAO-02-894)

The Administration for Children and Families (ACF), Administration for Children, Youth and Families (ACYF), Child Care Bureau (CCB) appreciates the opportunity to comment on this draft report. The report addresses how States set provider reimbursement rates and the extent to which subsidies and co-payments provide families with access to a range of child care options.

GAO Concluding Observations

In the six years since passage of Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) and the creation of the Child Care Development Fund (CCDF), States have exercised broad flexibility in designing child care subsidy programs to support parents' workforce participation by enhancing their access to affordable child care. In doing so, States have made varied choices regarding which families will be eligible for child care subsidies, how much those families must pay for child care, and how much the State will supplement these payments to offer choice among additional providers. States' decisions on these issues involve tradeoffs and may have unintended as well as intended efforts. For example, in the three States we visited, income eligibility standards varied from just over 40 percent to 70 percent of the State median income. However, the State with the highest eligibility standard, perhaps as a consequence, generally offered the lowest reimbursement rates. Similarly, based on our analysis of nine communities in three States, we observed that States were setting reimbursement rates in ways that had widely different implications for the number and type of child care providers from which a hypothetical family could choose, even across different communities within the State. In Illinois, the same maximum reimbursement rates were established for child care providers in Chicago and neighboring DuPage County, perhaps due to concerns for compensating providers equitably across political boundaries. However, the markedly different prices charged by providers in different localities made for very large differences in the selection that these rates afforded eligible families. Finally, the issue of selection or usage is more complex than reimbursement rates alone; States' policies such as licensing provisions are also important because they affect parents' choices and the supply of child care providers.

ACF Comment

The methodologies employed in this study were carefully thought out and designed and the report gives attention to the complex issues associated with reimbursement rates and co-payments. GAO surveyed States regarding market rate surveys and provider reimbursement rates and conducted on-site interviews in nine communities in three States. States told GAO that while market rate survey results are important in setting reimbursement rates, budget considerations and policy goals are also strong influences. In most of the communities visited, GAO found that maximum reimbursement rates were not sufficient to pay a substantial number of providers what those providers charge privately paying families. And, yet, most child care centers and many family home providers said they were willing to serve subsidized families.

GAO's findings highlight the difficulties in understanding child care markets and the effects of State policies on the decision child care providers and parents make. Within available funding, States make policy decisions that work together with local economic conditions, employment opportunities, parent needs and preferences, and child care supply issues. In sum, these create unique child care markets and varying patterns of child care utilization across States and communities.

The CCB and ACF regional offices support States in exercising the flexibility the CCDF provides and in making sound child care policy and program decisions. States must submit biennial plans that describe how they intend to implement CCDF. Plan approval requires that States demonstrate that they have conducted a market rate survey within two years. States must also certify that their reimbursement rates are adequate to provide eligible families with a range of child care choices. The ACF has refused to approve State plans on a number of occasions when a State was not in compliance with the market rate survey requirement. In these instances, States were given a time-limited period in which to comply.

Directly and through a network of technical assistance providers, ACF provides technical assistance to States including regional meetings, conferences, written materials, peer consultation, and on-site technical assistance. In recent years, the CCB sponsored a leadership forum and disseminated a written guide for States on conducting child care market rate surveys. Through its National Child Care Information Center (NCCIC), the CCB provides on-site technical assistance to assist States with complex policy and program issues including alternative approaches to reimbursement rates and family co-pays.

Many questions are raised by this report including:

- Why are providers willing to serve subsidized children even though State reimbursement rates are lower than their customary fees?
- Does this have implications to provider financial viability, child care worker wages and turnover, and ultimately, child care quality?
- To what extent are subsidized parents required to make up the difference between what their provider charges and the State's reimbursement rates?
- Do State maximum reimbursement rates influence the market price of care, especially in low-income communities?
- Are in-home and other unregulated caregivers more likely to waive parent co-payments? If so, does this encourage subsidized families to choose such care?

The CCB seeks to address these and other questions in several ways. Through the CCDF set-aside for research, demonstration and evaluation, the CCB funds studies intended to provide answers to pressing child care policy questions. In FY 2001, the CCB funded a multi-site, seven year, $9 million study, that will use experimental methods to assess the effects of variations in child care subsidy policies. In addition, through its Research Partnership and State Data and

Research Capacity grants, the CCB actively encourages States to study the interrelationships between State policies and State and local child care markets using data collected in the course of operating subsidy, licensing, and resource and referral programs.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

The following people also made important contributions to this report: Danielle T. Jones; R. Scott McNabb; Cynthia Decker; Patrick diBattista; Joel Grossman; Elsie Picyk; Bill Keller; and Daniel Schwimer.

Related GAO Products

Child Care: States Have Undertaken a Variety of Quality Improvement Initiatives, but More Evaluations of Effectiveness Are Needed. GAO-02-897. Washington, D.C.: September 6, 2002.

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